

Nike competitive advantage

Life



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* 1. MGMT65000 - Strategic Management - spring 2011 Test 1 By: Divya Mishra School of Management Purdue University Calumet Submitted to: Dr. Arifin Angriawan1| Page * 2. Company profile & background NIKE, Inc. is engaged in the design, development and worldwide marketing of footwear, apparel, equipment and accessory products. . It sells its products to around 18, 000 retail accounts in the United States and through a mix of independent distributors, licensees and subsidiaries in nearly 200 countries. NIKE is the largest seller of athletic footwear and athletic apparel in the world. The Company creates designs for men, women and children.

The top selling product category includes running, basketball, childrens, cross-training and womens shoes. It also designs shoes for outdoor activities like tennis, golf, soccer, baseball, football, bicycling, volleyball, wrestling, cheerleading, aquatic activities, hiking and other athletic and recreational uses. Index membership Sector Industry Employees S&P 500 Consumer Cyclical Footwear 23, 300 Products NIKE sells sports attire and accessories relevant to each sport mentioned above as well as other sports-inspired lifestyle apparel, like bags, socks, sport balls, eyewear, protective equipment, basic sport equipment, etc.

In addition to NIKE's footwear, apparel, and accessories businesses, the Company sells products under other brand names in particular markets. NIKE wholly-owns five footwear and apparel companies that specialize in different sports: Cole Haan, Converse Inc. , Hurley International LLC, Umbro Ltd. , and NIKE Golf. These subsidiaries combined together account for 13% of total revenues, \$2. 5 billion, in fiscal 2009. Manufacturing Footwear & Apparel All of NIKE's footwear is manufactured outside the United States in the factories

of China, Vietnam, Indonesia, and Thailand and account for 98 percent of total NIKE brand footwear in 2009.

The main raw materials used in NIKE footwear are rubber, plastic compounds, and foam cushioning materials, nylon, leather, canvas, and polyurethane films used for cushioning components. NIKE brand apparel is also manufactured almost entirely outside of the United States, in 34 different countries. The main materials used in NIKE apparel are natural and synthetic fabrics and threads, plastic and metal hardware, and water and heat resistant fabrics. Marketing and Advertising NIKE places a significant weight on marketing the company and its products.

NIKE aggressively bonds the contracts with highly successful and influential athletes, coaches, teams, and leagues like Michael Jordan, Serena Williams, and Tiger Woods to popularize its footwear, apparel and sports accessories. In order to sustain its dominance in the industry and stay competitive, NIKE actively responds to trends and changes in consumer preferences by adjusting the mix of existing product offerings, developing new products, styles and categories, and influencing sports and fitness preferences through aggressive marketing.

Its primary areas of marketing remain Net TV and magazines. 2 | Page * 3.

Competitors The rivalry in the sports wear industry is very high. NIKE competes with numerous athletic and leisure shoe companies worldwide. It faces fierce competition in product offerings, technologies, marketing expenditures, pricing, costs of production, and customer services. The main competitors are Adidas, Reebok, Timberland, Woodland, and Puma.

SWOT Analysis for NIKE Strengths Weaknesses Brand recognition Overseas manufacturing High product quality dependency Effective marketing Decreasing United States strategy market share Capacity of innovation High product price Strong distribution chain compared to Adidas Strong R&D Currency exposure Strong customer Medium retail presence relationship/satisfaction SWOT Analysis Opportunities Threats Expansion into emerging Fierce industry competition markets Revenue relies on Increased demand in product consumers' discretionary income Growing segment of women Economic rescission athletes Fluctuation in the currency Increase in the number of sports events like Olympic, FIFA3| Page * 4.

NIKE Innovations NIKE with Apple: The NIKE+ package consists of a pair of specially designed NIKE+ running shoes, an iPod nano, and a NIKE + iPod sport kit. The kit consists of a sensor that fits into a built-in pocket beneath the insole of the left shoe and a receiver that fits into the iPod nano dock connector. As a person runs, iPod tells the distance, pace, and calories burned via voice feedback that adjusts music volume as it plays. (Google image) Design your own shoes: NIKE allows customers to design their own shoes from a catalogue of predefined designs. Customers can choose their own colors and mascots to create shoes which define their personality.

It provides Touch screen technology in store allowing customers to design shoes of choice. (Google image) Nike self lacing automatic shoes: NIKE is also coming up with the new automatic self lacing sneakers. The automatic lacing system provides a set of straps that can be automatically opened and closed to switch between a loosened and tightened position. 4| Page * 5.

Critical data of Nike Annual Report \$ Millions 2010 Net Income 1, 906.

7Current Liability 3, 364. 2Total Assets 14419. 3Tax Rate 24. 2%Interest Rate 6. 35%Long-Term Debt 445. 8Return on Equity 19. 54%Total Equity 9753. 7Weighted Average Cost of Capital 8. 9%Capital Employed 11055. 1Interest Expense 6. EBIT 2516. 9NOPAT 1907. 81Return On Capital Employed 20. 7%Economic Value Added 1267. 25Cash Flow From Operations* 3164. 2Capital expenditure* 335. 1Free Cash Flow 2045. 31Five year Nike stock performance vs. S&P500* (Fiscal year 2006-2010) 2% Nike S&P500 90%5| Page * 6. 2010Nike revenue growth 2006-2010 Nike Revenue 25000 20000 Revenue 15000 10000 5000 0 2006 2007 2008 2009 2010 YearNike revenue generation by product 2010 Revenue Generation by Product 6% 34% Footwear 60% Apparel Equipment6| Page * 7. 1. Please use Figure 2. 3 page 53 (Grant's textbook, 7th edition) as your overall guide to draw a balanced scorecard for the firm.

Please draw a balanced scorecard for the firm that you choose. Identify all four perspectives, each perspective's objectives and their relationships. See example in the appendix. Feel free to modify it. On the other pages please elaborate on the four perspectives and their elements. For the financial performance perspective, at least you need to discuss: ROCE, EVA, and FCF. Conclude what the numbers mean to you as a manager (e. g. Good, bad, or neutral; and why). Why do firms need to prepare a balanced scorecard? (20 points) Balance Scorecard for NIKE 2010FINANCIAL GOOD--NEUTRAL • ROCE : 17. 8% Neutral • EVA: 1267. 25 millions Good • FCF : 2045. 1 millions Good • ROE : 19. 54% Good • Profit Margin : 10. 03% Good • NIKE growth: 7% vs. industry growth Good 4. 5% Bad • High advertising cost Good • Better COGS% than competitorsCUSTOMER GOOD-NEUTRAL • Customer

Satisfaction Good • Customer Loyalty Good • Customer retention ratio Good •
Market Share Good • Competitive Price Bad • Number of Customers Good
Good • Design own shoes option INTERNAL GOOD • Marketing Innovative
Products Good Celebrity endorsement Good Diversity of online product Good
• R&D Integrated researches Good Product technology Good High quality
product design Good • Good supplier relation Good • IT for inventory control
Good